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## Financial Section

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**McGLADREY & PULLEN, LLP**  
**Certified Public Accountants and Consultants**

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor,  
Members of the City Council  
and the City Manager  
City of Salisbury  
Salisbury, North Carolina

We have audited the accompanying general purpose financial statements of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Salisbury New Horizons Housing Corporation, Inc. or Downtown Salisbury, Inc., which statements reflect total assets of \$306,851 as of June 30, 1998, and total revenues of \$133,344 for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Salisbury New Horizons Housing Corporation, Inc. or Downtown Salisbury, Inc., is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Salisbury, North Carolina as of June 30, 1998 and the results of its operations and its cash flows for its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 1998 on our consideration of City of Salisbury's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Salisbury, North Carolina. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory or statistical sections of this comprehensive annual financial report and, accordingly, we express no opinion on such data.

Greensboro, North Carolina  
September 8, 1998

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**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,**  
**AND DISCRETELY PRESENTED COMPONENT UNITS**

**June 30, 1998**

	<b>Governmental Fund Types</b>			<b>Proprietary Fund Types</b>		<b>Fiduciary Fund Type</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	<b>Enterprise</b>	<b>Internal Service</b>	<b>Trust and Agency</b>
<b>ASSETS AND OTHER DEBIT</b>						
Cash and investments	\$ 4,980,057	\$ 186,655	\$ 1,677,363	\$ 5,488,627	\$ 467,068	\$ 250,648
Taxes receivable (net of allowance for uncollectibles)	351,775	-	-	-	-	3,522
Accounts receivable (net of allowance for uncollectibles)	412,869	1,235	-	1,789,504	-	-
Interest receivable	18,248	-	-	17,386	1,149	589
Due from other governments	1,497,024	67,223	-	142,586	-	-
Inventories	-	-	-	250,765	-	-
Prepaid items	44,297	-	-	8,714	-	-
Restricted assets:						
Cash and investments	-	-	-	11,997,560	-	-
Accounts receivable	-	-	-	198,320	-	-
Interest receivable	-	-	-	24,128	-	-
Notes receivable	-	-	-	-	-	-
Fixed assets	-	-	-	96,887,744	-	-
Accumulated depreciation	-	-	-	(26,720,254)	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-
Total assets and other debit	<u>\$ 7,304,270</u>	<u>\$ 255,113</u>	<u>\$ 1,677,363</u>	<u>\$ 90,085,080</u>	<u>\$ 468,217</u>	<u>\$ 254,759</u>

<b>Account Groups</b>		<b>Totals Primary Government</b>	<b>Component Units</b>		<b>Totals Reporting Entity</b>	
<b>General Fixed Assets</b>	<b>General Long-term Debt</b>	<b>(Memorandum Only)</b>	<b>Downtown Salisbury, Inc.</b>	<b>Salisbury New Horizons Corp</b>	<b>(Memorandum Only) 1998</b>	<b>(Memorandum Only) 1997</b>
\$ -	\$ -	\$ 13,050,418	\$ 85,411	\$ 25,505	\$ 13,161,334	\$ 13,500,477
-	-	355,297	-	-	355,297	358,237
-	-	2,203,608	-	-	2,203,608	2,212,787
-	-	37,372	-	-	37,372	148,811
-	-	1,706,833	-	-	1,706,833	2,509,096
-	-	250,765	-	-	250,765	306,721
-	-	53,011	-	-	53,011	167,926
-	-	11,997,560	-	-	11,997,560	7,482,081
-	-	198,320	-	-	198,320	148,227
-	-	24,128	-	-	24,128	25,640
-	-	-	-	63,215	63,215	94,691
22,236,176	-	119,123,920	160,136	4,100	119,288,156	94,176,223
-	-	(26,720,254)	(31,516)	-	(26,751,770)	(24,981,634)
-	5,973,620	5,973,620	-	-	5,973,620	3,379,722
<u>\$ 22,236,176</u>	<u>\$ 5,973,620</u>	<u>\$ 128,254,598</u>	<u>\$ 214,031</u>	<u>\$ 92,820</u>	<u>\$ 128,561,449</u>	<u>\$ 99,529,005</u>

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(continued)

**CITY OF SALISBURY, NORTH CAROLINA**

**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,  
AND DISCRETELY PRESENTED COMPONENT UNITS**

**June 30, 1998**

LIABILITIES, EQUITY AND OTHER CREDIT	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 1,382,477	\$ 70,428	\$ -	\$ 1,166,922	\$ 264,956	\$ 51,344
Outstanding checks in excess of bank balance	257,317	-	-	-	-	-
Deferred compensation benefits payable	-	-	-	-	-	-
Interest payable	-	-	-	234,290	-	-
Liabilities payable from restricted assets				1,492,926		
Current maturities of long-term debt	-	-	-	1,841,305	-	-
Deferred revenue	787,490	-	-	-	-	-
Customer deposits	-	-	-	163,553	-	-
Long-term debt	-	-	-	30,017,696	-	-
<b>Total liabilities</b>	<b>\$ 2,427,284</b>	<b>\$ 70,428</b>	<b>\$ -</b>	<b>\$ 34,916,692</b>	<b>\$ 264,956</b>	<b>\$ 51,344</b>
<b>EQUITY AND OTHER CREDIT</b>						
Investment in general fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributed capital	-	-	-	31,256,288	-	-
Retained earnings	-	-	-	23,912,100	203,261	-
Fund balances:						
Reserved by State statute	1,928,141	68,458	-	-	-	584
Reserved for encumbrances	667,772	-	-	-	-	-
Reserved for prepaid items	44,297	-	-	-	-	-
Reserved for employees' pension benefits	-	-	-	-	-	202,831
Unreserved:						
Designated for capital equipment replacement	1,277,944	-	-	-	-	-
Designated for subsequent year's expenditures	-	116,227	1,677,363	-	-	-
Undesignated	958,832	-	-	-	-	-
<b>Total equity and other credit</b>	<b>\$ 4,876,986</b>	<b>\$ 184,685</b>	<b>\$ 1,677,363</b>	<b>\$ 55,168,388</b>	<b>\$ 203,261</b>	<b>\$ 203,415</b>
<b>Total liabilities, equity and other credit</b>	<b>\$ 7,304,270</b>	<b>\$ 255,113</b>	<b>\$ 1,677,363</b>	<b>\$ 90,085,080</b>	<b>\$ 468,217</b>	<b>\$ 254,759</b>

See Notes to Financial Statements.

<b>Account Groups</b>		<b>Totals Primary Government</b>	<b>Component Units</b>		<b>Totals Reporting Entity</b>	
<b>General Fixed Assets</b>	<b>General Long-term Debt</b>	<b>(Memorandum Only)</b>	<b>Downtown Salisbury, Inc.</b>	<b>Salisbury New Horizons Corp</b>	<b>(Memorandum Only) 1998</b>	<b>(Memorandum Only) 1997</b>
\$ -	\$ -	\$ 2,936,127	\$ 6,676	\$ -	\$ 2,942,803	\$ 2,294,988
-	-	257,317	-	-	257,317	245,887
-	-	-	-	-	-	-
-	-	234,290	-	-	234,290	188,702
-	-	1,492,926	-	-	1,492,926	1,333,317
-	-	1,841,305	-	-	1,841,305	1,045,000
-	-	787,490	-	-	787,490	400,624
-	-	163,553	-	-	163,553	131,631
-	5,973,620	35,991,316	52,230	-	36,043,546	21,510,147
<u>\$ -</u>	<u>\$ 5,973,620</u>	<u>\$ 43,704,324</u>	<u>\$ 58,906</u>	<u>\$ -</u>	<u>\$ 43,763,230</u>	<u>\$ 27,150,296</u>
\$ 22,236,176	\$ -	\$ 22,236,176	\$ 128,620	\$ 4,100	\$ 22,368,896	\$ 19,347,096
-	-	31,256,288	-	-	31,256,288	23,517,999
-	-	24,115,361	-	-	24,115,361	22,882,435
-	-	1,997,183	-	-	1,997,183	2,527,909
-	-	667,772	-	-	667,772	1,386,173
-	-	44,297	-	-	44,297	167,926
-	-	202,831	-	-	202,831	162,401
-	-	1,277,944	-	-	1,277,944	619,170
-	-	1,793,590	-	-	1,793,590	691,367
-	-	958,832	26,505	88,720	1,074,057	1,076,233
<u>\$ 22,236,176</u>	<u>\$ -</u>	<u>\$ 84,550,274</u>	<u>\$ 155,125</u>	<u>\$ 92,820</u>	<u>\$ 84,798,219</u>	<u>\$ 72,378,709</u>
<u>\$ 22,236,176</u>	<u>\$ 5,973,620</u>	<u>\$ 128,254,598</u>	<u>\$ 214,031</u>	<u>\$ 92,820</u>	<u>\$ 128,561,449</u>	<u>\$ 99,529,005</u>

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**ALL GOVERNMENTAL FUND TYPES**  
**AND DISCRETELY PRESENTED COMPONENT UNITS**  
**For the Year Ended June 30, 1998**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>REVENUES:</b>			
Taxes	\$ 10,812,490	\$ -	\$ -
License and permits	427,718	-	-
Intergovernmental	4,516,122	505,976	-
Charges for services	1,416,622	-	-
Miscellaneous	818,057	284,082	71,160
Administrative charges	1,207,500	-	-
Total revenues	<u>\$ 19,198,509</u>	<u>\$ 790,058</u>	<u>\$ 71,160</u>
<b>OTHER FINANCING SOURCES:</b>			
Proceeds from general obligation bonds	-	-	3,000,000
Total revenues and other financing sources	<u>\$ 19,198,509</u>	<u>\$ 790,058</u>	<u>\$ 3,071,160</u>
<b>EXPENDITURES:</b>			
Current:			
General government	\$ 4,300,358	\$ 103,259	\$ -
Public safety	6,900,177	-	-
Transportation	3,047,455	-	-
Environmental protection	1,331,161	-	-
Culture and recreation	2,186,293	-	1,745,076
Community and economic development	1,526,471	692,750	-
Education	42,342	-	-
Debt service:			
Principal	417,200	-	-
Interest	199,808	-	-
Total expenditures	<u>\$ 19,951,265</u>	<u>\$ 796,009</u>	<u>\$ 1,745,076</u>
<b>OTHER FINANCING USES:</b>			
Operating transfers to other funds:			
Enterprise	130,021	-	-
Total expenditures and other financing uses	<u>\$ 20,081,286</u>	<u>\$ 796,009</u>	<u>\$ 1,745,076</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<u>\$ (882,777)</u>	<u>\$ (5,951)</u>	<u>\$ 1,326,084</u>
<b>FUND BALANCE, BEGINNING</b>	<u>5,759,763</u>	<u>190,636</u>	<u>351,279</u>
<b>FUND BALANCE, ENDING</b>	<u><u>\$ 4,876,986</u></u>	<u><u>\$ 184,685</u></u>	<u><u>\$ 1,677,363</u></u>

See Notes to Financial Statements.



<b>Totals Primary Government (Memorandum Only)</b>	<b>Component Units</b>		<b>Totals Reporting Entity (Memorandum Only)</b>
	<b>Downtown Salisbury, Inc.</b>	<b>Salisbury New Horizons Corp</b>	
\$ 10,812,490	\$ 65,949	\$ -	\$ 10,878,439
427,718	-	-	427,718
5,022,098	61,122	-	5,083,220
1,416,622	-	-	1,416,622
1,173,299	5,887	386	1,179,572
<u>1,207,500</u>	<u>-</u>	<u>-</u>	<u>1,207,500</u>
<u>\$ 20,059,727</u>	<u>\$ 132,958</u>	<u>\$ 386</u>	<u>\$ 20,193,071</u>
 <u>3,000,000</u>	 <u>-</u>	 <u>-</u>	 <u>3,000,000</u>
 <u>\$ 23,059,727</u>	 <u>\$ 132,958</u>	 <u>\$ 386</u>	 <u>\$ 23,193,071</u>
\$ 4,403,617	\$ -	\$ 1,200	\$ 4,404,817
6,900,177	-	-	6,900,177
3,047,455	-	-	3,047,455
1,331,161	-	-	1,331,161
3,931,369	-	-	3,931,369
2,219,221	181,965	-	2,401,186
42,342	-	-	42,342
		-	-
417,200	-	-	417,200
<u>199,808</u>	<u>-</u>	<u>-</u>	<u>199,808</u>
<u>\$ 22,492,350</u>	<u>\$ 181,965</u>	<u>\$ 1,200</u>	<u>\$ 22,675,515</u>
 <u>130,021</u>	 <u>-</u>	 <u>-</u>	 <u>130,021</u>
 <u>\$ 22,622,371</u>	 <u>\$ 181,965</u>	 <u>\$ 1,200</u>	 <u>\$ 22,805,536</u>
\$ 437,356	\$ (49,007)	\$ (814)	\$ 387,535
<u>6,301,678</u>	<u>75,512</u>	<u>89,534</u>	<u>6,466,724</u>
 <u>\$ 6,739,034</u>	 <u>\$ 26,505</u>	 <u>\$ 88,720</u>	 <u>\$ 6,854,259</u>

## CITY OF SALISBURY, NORTH CAROLINA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL

## GENERAL FUND AND SPECIAL REVENUE FUND

For the Year Ended June 30, 1998

	General Fund		
	Actual	Budget	Actual Over (Under) Budget
REVENUES:			
Taxes	\$ 10,812,490	\$ 10,432,846	\$ 379,644
License and permits	427,718	417,228	10,490
Intergovernmental	4,516,122	5,363,994	(847,872)
Charges for services	1,416,622	1,431,222	(14,600)
Miscellaneous	818,057	1,849,348	(1,031,291)
Administrative charges	<u>1,207,500</u>	<u>1,207,500</u>	<u>-</u>
Total revenues	\$ 19,198,509	\$ 20,702,138	\$ (1,503,629)
OTHER FINANCING SOURCES:			
Fund balance appropriated	<u>-</u>	<u>2,839,236</u>	<u>(2,839,236)</u>
Total revenues and other financing sources	\$ <u>19,198,509</u>	\$ <u>23,541,374</u>	\$ <u>(4,342,865)</u>
EXPENDITURES:			
Current:			
General government	\$ 4,300,358	\$ 5,102,448	\$ (802,090)
Public safety	6,900,177	8,044,937	(1,144,760)
Transportation	3,047,455	4,088,361	(1,040,906)
Environmental protection	1,331,161	1,475,764	(144,603)
Culture and recreation	2,186,293	2,283,911	(97,618)
Community and economic development	1,526,471	1,745,800	(219,329)
Education	42,342	42,342	-
Debt service:			
Principal	417,200	418,287	(1,087)
Interest	<u>199,808</u>	<u>209,503</u>	<u>(9,695)</u>
Total expenditures	\$ 19,951,265	\$ 23,411,353	\$ (3,460,088)
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass transit	<u>130,021</u>	<u>130,021</u>	<u>-</u>
Total expenditures and other financing uses	\$ <u>20,081,286</u>	\$ <u>23,541,374</u>	\$ <u>(3,460,088)</u>
NET DECREASE IN FUND BALANCE	\$ (882,777)	\$ <u>-</u>	\$ <u>(882,777)</u>
FUND BALANCE, BEGINNING	<u>5,759,763</u>		
FUND BALANCE, ENDING	<u>\$ 4,876,986</u>		

See Notes to Financial Statements.

Special Revenue Fund			Totals Memorandum Only		
Actual	Budget	Actual Over (Under) Budget	Actual	Budget	Actual Over (Under) Budget
\$ -	\$ -	\$ -	\$ 10,812,490	\$ 10,432,846	\$ 379,644
-	-	-	427,718	417,228	10,490
505,976	851,108	(345,132)	5,022,098	6,215,102	(1,193,004)
-	-	-	1,416,622	1,431,222	(14,600)
284,082	239,640	44,442	1,102,139	2,088,988	(986,849)
-	-	-	1,207,500	1,207,500	-
\$ 790,058	\$ 1,090,748	\$ (300,690)	\$ 19,988,567	\$ 21,792,886	\$ (1,804,319)
-	-	-	-	2,839,236	(2,839,236)
\$ 790,058	\$ 1,090,748	\$ (300,690)	\$ 19,988,567	\$ 24,632,122	\$ (4,643,555)
\$ 103,259	\$ 97,570	\$ 5,689	\$ 4,403,617	\$ 5,200,018	\$ (796,401)
-	-	-	6,900,177	8,044,937	(1,144,760)
-	-	-	3,047,455	4,088,361	(1,040,906)
-	-	-	1,331,161	1,475,764	(144,603)
-	-	-	2,186,293	2,283,911	(97,618)
692,750	993,178	(300,428)	2,219,221	2,738,978	(519,757)
-	-	-	42,342	42,342	-
-	-	-	417,200	418,287	(1,087)
-	-	-	199,808	209,503	(9,695)
\$ 796,009	\$ 1,090,748	\$ (294,739)	\$ 20,747,274	\$ 24,502,101	\$ (3,754,827)
-	-	-	130,021	130,021	-
\$ 796,009	\$ 1,090,748	\$ (294,739)	\$ 20,877,295	\$ 24,632,122	\$ (3,754,827)
\$ (5,951)	\$ -	\$ (5,951)	(888,728)	-	(888,728)
190,636			5,950,399		
\$ 184,685			\$ 5,061,671		

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN RETAINED EARNINGS**

**ALL PROPRIETARY FUNDS**

**For the Year Ended June 30, 1998**

	<b>Proprietary Fund Type</b>		<b>Totals (Memorandum Only)</b>	
	<b>Enterprise</b>	<b>Internal Service</b>	<b>1998</b>	<b>1997</b>
OPERATING REVENUES:				
Charges for services	\$ 11,502,963	\$ 1,582,554	\$ 13,085,517	\$ 12,650,777
Total operating revenues	\$ 11,502,963	\$ 1,582,554	\$ 13,085,517	\$ 12,650,777
OPERATING EXPENSES:				
Management and administration	\$ 2,151,970	\$ -	\$ 2,151,970	\$ 2,229,710
Water resources	3,722,927	-	3,722,927	3,249,918
Maintenance and distribution	2,114,713	-	2,114,713	1,812,234
Depreciation	1,839,687	-	1,839,687	1,904,135
Mass transit operations	321,162	-	321,162	322,470
Employee benefits	-	1,832,668	1,832,668	1,617,245
Total operating expenses	\$ 10,150,459	\$ 1,832,668	\$ 11,983,127	\$ 11,135,712
OPERATING INCOME (LOSS)	\$ 1,352,504	\$ (250,114)	\$ 1,102,390	\$ 1,515,065
NONOPERATING REVENUES (EXPENSES):				
Interest earned on investments	\$ 755,126	\$ 21,347	\$ 776,473	\$ 881,885
Intergovernmental	182,527	-	182,527	211,613
Miscellaneous revenues	401,880	-	401,880	189,791
Interest expense	(1,360,365)	-	(1,360,365)	(1,002,294)
Net nonoperating revenues (expenses)	\$ (20,832)	\$ 21,347	\$ 515	\$ 280,995
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ 1,331,672	\$ (228,767)	\$ 1,102,905	\$ 1,796,060
OPERATING TRANSFERS IN:				
General Fund	130,021	-	130,021	128,671
NET INCOME (LOSS)	\$ 1,461,693	\$ (228,767)	\$ 1,232,926	\$ 1,924,731
RETAINED EARNINGS, BEGINNING	22,450,407	432,028	22,882,435	20,957,704
RETAINED EARNINGS, ENDING	\$ 23,912,100	\$ 203,261	\$ 24,115,361	\$ 22,882,435

See Notes to Financial Statements.

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**For the Year Ended June 30, 1998**

	<b>Proprietary Fund Type</b>		<b>Totals</b>	
			<b>(Memorandum Only)</b>	
	<b>Enterprise</b>	<b>Internal Service</b>	<b>1998</b>	<b>1997</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,352,504	\$ (250,114)	\$ 1,102,390	\$ 1,515,065
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,839,687	-	1,839,687	1,904,135
Loss on sale of fixed assets	-	-	-	10,187
Other receipts	218,026	-	218,026	189,791
Change in assets and liabilities:				
(Increase) decrease in accounts and interest receivable	27,471	6,252	33,723	(527,933)
(Increase) decrease in inventory	55,956	-	55,956	3,662
(Increase) decrease due from other governments	309,621	-	309,621	(353,210)
(Increase) decrease in prepaid items	(8,714)	-	(8,714)	-
Increase (decrease) in accounts and interest payable and accrued liabilities	680,617	14,654	695,271	984,241
Increase (decrease) in customer deposits	<u>31,922</u>	<u>-</u>	<u>31,922</u>	<u>19,053</u>
Net cash provided by (used for) operating activities	<u>\$ 4,507,090</u>	<u>\$ (229,208)</u>	<u>\$ 4,277,882</u>	<u>\$ 3,744,991</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating grants received	\$ 182,527	\$ -	\$ 182,527	\$ 211,613
Operating transfer from general fund	<u>130,021</u>	<u>-</u>	<u>130,021</u>	<u>128,671</u>
Net cash provided by noncapital financing activities	<u>\$ 312,548</u>	<u>\$ -</u>	<u>\$ 312,548</u>	<u>\$ 340,284</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from issuing general obligation bonds	\$ 10,623,915	\$ -	\$ 10,623,915	\$ 816,205
Proceeds from sale of fixed assets	-	-	-	3,450
Capital grants received	9,264	-	9,264	100,998
Interest paid on general obligation bonds	(1,360,368)	-	(1,360,368)	(1,015,738)
Acquisition of capital assets	(13,549,066)	-	(13,549,066)	(10,851,389)
Principal paid on general obligation bonds	(1,515,305)	-	(1,515,305)	(1,045,000)
Capital contributed by developers	<u>2,906,450</u>	<u>-</u>	<u>2,906,450</u>	<u>2,283,370</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ (2,885,110)</u>	<u>\$ -</u>	<u>\$ (2,885,110)</u>	<u>\$ (9,708,104)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investment securities	<u>\$ 755,126</u>	<u>\$ 21,347</u>	<u>\$ 776,473</u>	<u>\$ 881,885</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 2,689,654</u>	<u>\$ (207,861)</u>	<u>\$ 2,481,793</u>	<u>\$ (4,740,944)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>14,796,533</u>	<u>674,929</u>	<u>15,471,462</u>	<u>20,212,406</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 17,486,187</u></u>	<u><u>\$ 467,068</u></u>	<u><u>\$ 17,953,255</u></u>	<u><u>\$ 15,471,462</u></u>

**NONCASH CAPITAL AND FINANCING ACTIVITIES**

As discussed in the notes to the financial statements, on July 1, 1997, the City took over the operations of two local municipalities; which resulted in a noncash acquisition of fixed assets in the amount of \$8,615,618, capital leases totaling \$3,604,187, contributed capital from the municipalities of \$4,827,576, and other liabilities of \$183,855.

See Notes to Financial Statements.

## CITY OF SALISBURY, NORTH CAROLINA

## PENSION TRUST FUND

## STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 1998

With Comparative Totals for the Year Ended June 30, 1997

	<u>1998</u>	<u>1997</u>
ADDITIONS:		
Employer contributions	\$ 48,441	\$ 50,504
Investment income:		
Interest	<u>8,359</u>	<u>7,117</u>
Total additions	<u>\$ 56,800</u>	<u>\$ 57,621</u>
DEDUCTIONS:		
Employee benefits	<u>\$ 17,840</u>	<u>\$ 17,856</u>
Total deductions	<u>\$ 17,840</u>	<u>\$ 17,856</u>
NET INCREASE	\$ 38,960	\$ 39,765
FUND BALANCE RESERVED FOR EMPLOYEES		
PENSION BENEFITS:		
Beginning of year	<u>164,455</u>	<u>124,690</u>
End of year	<u>\$ 203,415</u>	<u>\$ 164,455</u>

See Notes to Financial Statements.

## CITY OF SALISBURY, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS

## Note 1. Summary of Significant Accounting Policies

The accounting policies of the City of Salisbury (City) and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City is a municipal corporation of the State of North Carolina which is governed by an elected board of five city council members. As required by generally accepted accounting principles, these financial statements present the City and its component units, legally separate entities for which the City is financially accountable. The two discretely presented component units presented below are reported in separate columns in the City's financial statements in order to emphasize that they are legally separate from the City.

Discretely Presented Component Units

Downtown Salisbury, Inc. was created to serve the interests of merchants and property owners in the downtown Salisbury area. The Corporation is governed by eight board members, one of whom is appointed by the City Council. The Corporation's revenue sources are almost entirely dependent on the City Council's approval of a municipal service district tax levy and a supplemental appropriation as part of the annual budget process.

Salisbury New Horizons Housing Corporation, Inc., serves the Salisbury community by providing construction period financing for housing for low income and economically disadvantaged persons. The component unit is a not-for-profit financing company established to almost exclusively serve the City in marketing its fair housing programs. The Corporation is governed by five board members, all of whom are appointed by the City Council. The Corporation has no paid employees; however, its activities are conducted by members of the City of Salisbury Community and Economic Development Department. Additionally, all the Corporation's assets, liabilities, and income are technically considered to belong to the City of Salisbury due to the nature of the funding agreements. Salisbury New Horizons Housing Corporation, Inc., maintains its financial records on an October 1 to September 30 fiscal year.

Related Organization

The Housing Authority of Salisbury's governing board is appointed entirely by the City's Mayor. However, the City has no further accountability for the Housing Authority's operations.

Complete financial statements for each of the individual component units may be obtained at the units' administrative offices.

Downtown Salisbury, Inc.  
Suite 300  
100 W. Innes Street  
Salisbury, NC 28144

Salisbury New Horizons Housing Corporation, Inc.  
Fourth Floor  
132 N. Main Street  
Salisbury, North Carolina 28144

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The account groups are not funds, but are a reporting device used to

## NOTES TO FINANCIAL STATEMENTS

account for certain assets and liabilities of the Governmental Funds that are not recorded directly in those funds.

The City uses the following fund categories (further divided by fund type) and account groups:

Governmental Funds are used to account for the City's governmental functions. Governmental funds include the following fund types:

**General Fund** - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, transportation, environmental protection, culture and recreation, community and economic development, and general government services.

**Special Revenue Fund** - Special revenue funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City maintains one Special Revenue Fund, a Community Development Fund.

**Capital Projects Fund** - Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds). North Carolina General Statutes require the establishment of a capital project fund to account for the proceeds of each bond order or order authorizing any debt instrument and for all other resources used for the capital projects financed by the bond or debt instrument proceeds.

Proprietary Fund include the following fund types:

**Enterprise Funds** - Enterprise funds are used to account for those operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City has two Enterprise Funds: the Water and Sewer Fund and the Mass Transit Fund. For financial reporting purposes, a Water and Sewer Capital Project Fund has been consolidated with enterprise operating funds.

**Internal Service Funds** - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The City maintains two internal service funds, the Workers' Compensation Fund and the Employee Health Care Fund. These funds are used to account for the resources and liabilities of the self insured funds.

Fiduciary Funds account for the assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary Funds include the following funds:

**Agency Funds** - Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the City holds on behalf of others. The City maintains two agency funds: Boards and Commissions and Municipal Service District.

**Pension trust fund** - Pension trust funds are used to account for assets of employee retirement systems administered by the City. Pension trust funds are accounted for in essentially the same manner as proprietary funds. The City maintains one pension trust fund, the Law Enforcement Officers' Separation Allowance Fund, to account for the Law Enforcement Officers' Special Separation Allowance, a single-employer public employee retirement system.

Account Groups - The General Fixed Assets Account Group is used to account for fixed assets that are not accounted for in the proprietary funds. The General Long-Term Debt Account Group is used to account for



## NOTES TO FINANCIAL STATEMENTS

general long-term debt and certain other liabilities that are not specific liabilities of the proprietary funds.

### C. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Proprietary Funds and the Pension Trust Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity of the Proprietary Funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements for these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Pension trust funds are accounted for similarly; however, fund equity (net total assets) is recognized as being a fully reserved fund balance.

The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements on the same basis. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available") to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The City generally considers all revenues available if they are collected within 60 days after year end, except for property taxes. Ad valorem property taxes are not accrued because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 1997 through February 1998 apply to the fiscal year ended June 30, 1998. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 1998 because they are intended to finance the City's operations during the 1999 fiscal year.

Sales taxes collected and held by the State at year end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues.

The City reports deferred revenue on its Combined Balance Sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period.

## NOTES TO FINANCIAL STATEMENTS

Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. Exceptions to this general rule include: (1) certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources; and (2) principal and interest on general long-term debt which is recognized when due.

The Proprietary Fund and Pension Trust Fund are presented in the financial statements on the accrual basis. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period when incurred. In converting the enterprise funds from the modified accrual basis to the accrual basis, the changes required are adjustments for unpaid vacation pay, depreciation, capital expenditures, payments of principal on outstanding debt, and unpaid interest. As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations and Pension Trust Fund.

The Water and Sewer Fund reimburses the General Fund for expenditures made on its behalf in the finance department and certain other central services. The General Fund pays the Water and Sewer Fund for its normal billable charges. Both of these types of transactions are considered to be quasi-external transactions and are recorded as revenues and expenses in the appropriate funds.

### D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Enterprise, and Special Revenue funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise fund capital projects. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting.

Appropriations are made at the departmental level in the General Fund and the Water and Sewer Fund. Appropriations for the Special Revenue Fund and the Mass Transit Fund are made at the fund level. All appropriations are amended as necessary by the governing board. Expenditures may not legally exceed the appropriation level as determined by the Annual Budget Ordinance. A portion of fund balance may be appropriated to balance a fund's budget. The budget amounts shown represent the budget ordinance as amended at June 30 of the budget year. All annual appropriations lapse at year end. In the accompanying statements, appropriated fund balance is presented as an "other financing source".

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer appropriations between functional areas; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. During the fiscal year there were thirty-seven (37) supplemental appropriations.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds, and enterprise funds.

## NOTES TO FINANCIAL STATEMENTS

Budgets for the General Fund and special revenue funds are adopted on a basis consistent with GAAP. Budgets for the enterprise funds are adopted on a basis consistent with GAAP except that bond proceeds and contributed capital are treated as other financing sources, bond principal payments and additions to fixed assets are treated as expenditures, depreciation expense is not budgeted, and no accruals are made for interest expense and vacation pay.

As required by State law [G.S. 159-26(d)], the City maintains encumbrance accounts which are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget. At June 30, 1998, \$667,772 of open purchase orders and contracts were outstanding in the General Fund.

### E. Deposits and Investments

All deposits of the City and of Downtown Salisbury, Inc. and Salisbury New Horizons Housing Corporation, Inc. are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and its component units may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and its component units may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City and its component units to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT), a SEC-registered (2a-7) money market mutual fund.

### F. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Downtown Salisbury, Inc. and Salisbury New Horizons Housing Corporation, Inc. consider all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

### G. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the City are classified as restricted assets for the Enterprise Fund because their use is completely restricted for the purpose for which the bonds were originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

### H. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values of January 1, 1997. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

### I. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful

## NOTES TO FINANCIAL STATEMENTS

accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

### J. Inventories and Prepaid Items

Inventories are maintained in the enterprise funds for maintenance supplies. The inventories are valued at cost, on a first-in, first-out basis, which is not in excess of market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### K. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation on all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary funds balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	40 Years
Equipment	3-10 Years
Vehicles	4-10 Years

### I. Long-Term Debt

The City's long-term debt for water and sewer purposes is carried in the Water and Sewer Fund rather than in the General Long-Term Debt Account Group. The debt service requirements for the water and sewer debt are being met by water and sewer revenues, but the taxing power of the City is pledged to make these payments if water and sewer revenues should ever be insufficient. Long-term debt for other purposes is included in the General Long-Term Debt Account Group. The debt service requirements for all debt carried in the General Long-Term Debt Account Group are appropriated annually in the General Fund.

### J. Compensated Absences

The Personnel Policy of the City provides that each employee in a regular full time position shall earn annual vacation leave at the rate of 12 to 21 days per calendar year, based on years of service, with such leave being fully vested when earned. Employees may accrue up to 30 days with less than seven years service, and 45 days with seven or more years of employment. Accumulated unpaid vacation is accrued in proprietary funds (using the accrual basis of accounting). Only the current portion is accrued in governmental funds (using the modified accrual basis of accounting). At June 30, 1998, accumulated earned vacation and salary related payments amounted to \$958,716 for the governmental funds and \$219,699 for the proprietary funds. Of the governmental funds' liability, \$239,679 is recognized as an accrued liability in the General Fund. The balance of \$719,037 is recognized in the general long-term debt account group while the liabilities of the enterprise funds are recognized as accrued liabilities in the funds themselves.

The City's Personnel Policy also provides for an unlimited accumulation of sick leave at the rate of one day per month. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no liability has been reported for unpaid accumulated sick leave.

## NOTES TO FINANCIAL STATEMENTS

### K. Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivables and due from other governments which have not been offset by deferred revenues.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved for prepaid items - portion of total fund balance which has been expended for the benefit of future periods.

Reserved for employees' pension benefits - portion of total fund balance available for appropriation to pay retirement benefits when due.

Designated for capital equipment replacement - fund balance that has been set aside to fund the replacement of vehicles.

Designated for subsequent year's expenditures – portion of the total fund balance available for appropriation that has been designated for the adopted for the 1998-99 budget ordinance.

Undesignated – portion of total fund balance available for appropriation that is uncommitted at year-end.

### L. Totals (Memorandum Only) Columns

The total columns on the accompanying financial statements are captioned as "Totals Primary Government (Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

### N. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the City's financial position and operations or would cause the statements to be unduly complex or difficult to understanding.

## Note 2. Stewardship, Compliance and Accountability

### A. Material Violations of Finance-Related Legal and Contractual Provisions

There were no material violations of finance-related legal and contractual provisions for the fiscal year ended June 30, 1998.

## NOTES TO FINANCIAL STATEMENTS

### B. Excess of Expenditures Over Appropriations

There were no expenditures in excess of appropriated amounts for the fiscal year ended June 30, 1998.

### C. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Mass Transit Fund had a retained earnings deficit of \$1,185,140 at June 30, 1998. The deficit is offset with \$1,472,422 of contributed capital which results in a fund equity in the Mass Transit Fund of \$287,282 at June 30, 1998.

## Note 3. Detail Notes On All Funds And Account Groups

### A. Cash and Investments

Total cash and investments were composed as follows:

Cash on hand	\$ 2,257
Cash in demand deposits	2,163,094
Certificates of Deposit	1,100,000
Investments	<u>21,782,627</u>
	<u>\$ 25,047,978</u>

All deposits of the City, Downtown Salisbury, Inc., and Salisbury New Horizons Housing Corporation, Inc. are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's and component units' agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the component units, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component units under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flow. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method.

At June 30, 1998 the City's deposits had a carrying amount of \$3,005,777 (a liability of \$257,317 is recorded for the excess of outstanding checks in excess of the bank balance in the demand checking account) and a bank balance of \$3,425,709, of which \$285,497 was covered by federal depository insurance and \$3,140,212 was collateralized by securities. The carrying amount of deposits and bank balance for Downtown Salisbury, Inc. was \$54,168. The carrying amount of deposits and bank balance for Salisbury New Horizons Housing Corporation, Inc. was \$25,505. The bank balances for both of the component units were fully covered by federal depository insurance. Downtown Salisbury, Inc. also held \$31,243 in a short-term money market fund which was neither insured by federal depository insurance nor collateralized by securities.

### A. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. At year end, the City had no

## NOTES TO FINANCIAL STATEMENTS

investments which would be classified as Category 2 or 3. Investments of the Deferred Compensation agency fund are exempt from risk categorization because third-party custodians take delivery of the investment securities on behalf of the City. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund. At June 30, 1998, the City's investments were as follows:

	Category 1	Reported Value	Fair Value
U.S. Government Agencies	\$ 500,000	\$ 500,000	\$ 500,000
Commercial Paper	3,889,849	3,889,849	3,889,849
	<u>\$ 4,389,849</u>		
North Carolina Capital Management			
Trust, Cash Portfolio		17,392,778	17,392,778
Total Investments		<u>\$ 21,782,627</u>	<u>\$ 21,782,627</u>

State statutes authorize the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina (NC), local government or public authority in NC; savings certificates, investment certificates or shares or deposits in savings and loan associations organized in NC or federal savings and loan associations who have their principal office in NC; obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, and the United States Postal Service; the North Carolina Capital Management Trust, an SEC registered mutual fund established and administered by the State Treasurer; Certificates of Deposit issued by banks either organized under NC laws or having their principal office in NC; prime quality commercial paper and bankers acceptance bearing the highest grade of at least one nationally known rating service and not one below that by another nationally known rating service; and repurchase agreements.

At June 30, 1998, neither Downtown Salisbury, Inc. nor Salisbury New Horizons Housing Corporation, Inc. owned any investments.

### C. Ad Valorem Taxes Receivable

Property tax revenue is recognized as it becomes both measurable and available. Available, as defined, means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. No provision for an accrual of property tax was made in the accompanying financial statements because the amount was not considered to be material. The amount of the receivable is reduced by an allowance for doubtful accounts which is based upon past experience. An amount equal to the net receivable is shown as deferred revenue on the Combined Balance Sheet.

According to the North Carolina Tax Code, all real property and personal property is assessed for property tax purposes on January 1st of each year. The tax rate is set each year by the City Council at the time the final budget ordinance is adopted. Ad valorem taxes are levied on July 1, the beginning of the fiscal year except for ad valorem taxes on certain vehicles. Tax bills are initially prepared and mailed in August, and property taxes are due the first day of September each year, but can be received in the Tax Collector's Office until January 5th of the next year without interest at which time the property is subject to lien attachment. If payment is made after January 5th, the interest charge is 2 percent for the month of January and 3/4 percent every month thereafter until the bill is paid. On March 1st or as soon thereafter as practical, a certified notice of delinquent property taxes, penalties, assessments, and costs are mailed.

### D. Receivable - Allowances for Doubtful Accounts

The amounts shown in the combined balance sheet for receivables are net of the following allowances for doubtful accounts.

## NOTES TO FINANCIAL STATEMENTS

General Fund:

Allowance for uncollectible property taxes receivable                      \$    200,000

Enterprise Fund:

Water and Sewer Fund

Allowance for uncollectible utility receivables                                      30,000

Agency Fund:

Municipal Service District Fund

Allowance for uncollectible property taxes receivable                              2,000

E. Fixed Assets

A summary of changes in general fixed assets follows:

<u>General Fixed Assets</u>	Balances June 30, 1997	Additions	Retirements	Transfers	Balances June 30, 1998
Land	\$    803,700	\$    547,293	\$           -	\$           -	\$   1,350,993
Buildings and improvements	6,010,834	95,665	3,394	-	6,103,105
Equipment	12,050,880	242,958	372,056	144,945	12,066,727
Construction in progress	253,399	2,606,897	-	(144,945)	2,715,351
Total general fixed assets	<u>\$   19,118,813</u>	<u>\$   3,492,813</u>	<u>\$    375,450</u>	<u>\$           -</u>	<u>\$   22,236,176</u>
<u>Function</u>					
General government	\$   3,688,838	\$    807,634	\$    105,623	\$      74,045	\$   4,464,894
Public safety	5,539,046	50,198	162,466	(65,194)	5,361,584
Transportation	3,115,052	64,018	68,102	8,460	3,119,428
Environmental protection	1,148,873	26,006	-	-	1,174,879
Culture and recreation	1,509,112	1,983,061	29,277	(24,974)	3,437,922
Community & economic development	4,117,892	561,896	9,982	7,663	4,677,469
Total general fixed assets	<u>\$   19,118,813</u>	<u>\$   3,492,813</u>	<u>\$    375,450</u>	<u>\$           -</u>	<u>\$   22,236,176</u>
<u>Funding Source</u>					
Assets purchased prior to FY86					
from undetermined sources	\$   3,342,789	\$           -	\$    129,167		\$    3,213,622
General Fund	15,311,073	3,342,813	246,283		18,407,603
Special Revenue	464,951	150,000	-		614,951
Total general fixed assets	<u>\$   19,118,813</u>	<u>\$   3,492,813</u>	<u>\$    375,450</u>		<u>\$   22,236,176</u>

Reconciliation of additions

Capital outlay expenditures	\$1,735,237
Capital Project Fund expenditures	1,745,076
Donated land	<u>12,500</u>
	<u>\$3,492,813</u>

In the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, expenditures include current and debt service classifications, but does not include a classification for capital outlays. Capital outlay expenditures were recorded in the functions as they were budgeted.

A summary of enterprise fund fixed assets at June 30, 1998, follows:



## NOTES TO FINANCIAL STATEMENTS

	Fixed Assets	Accumulated Depreciation	Net
Water and Sewer Fund:			
Land	\$ 2,074,567	\$ -	\$ 2,074,567
Buildings and improvements	70,596,835	21,508,623	49,088,212
Equipment	5,402,283	3,933,829	1,468,454
Construction in progress	17,434,861	-	17,434,861
Total Water and Sewer Fund	<u>\$ 95,508,546</u>	<u>\$ 25,442,452</u>	<u>\$ 70,066,094</u>
Mass Transit Fund:			
Buildings and improvements	\$ 481,794	\$ 470,099	\$ 11,695
Equipment	897,404	807,703	89,701
Total Mass Transit Fund	<u>\$ 1,379,198</u>	<u>\$ 1,277,802</u>	<u>\$ 101,396</u>
	<u>\$ 96,887,744</u>	<u>\$ 26,720,254</u>	<u>\$ 70,167,490</u>

As of June 30, 1998, Downtown Salisbury, Inc. held property and equipment with a net book value of \$128,620 including land with a cost of \$119,500. Salisbury New Horizons Housing Corporation, Inc. owns land with a cost of \$4,100.

### F. Deferred Revenue

As discussed in Note 3C, property taxes receivable that are measurable but not available are recorded as taxes receivable and as deferred revenue. Likewise, prepaid property taxes or privilege licenses have not met the recognition criteria and are recorded as deferred revenue. Other deferred revenue in the General Fund represents moneys that have been given to the City to be used for the development of Hurley Park and Robertson Park but have not yet been spent for that purpose as of June 30, 1998. The balance in deferred revenue at year end, including these items, is composed of the following elements:

	General Fund
Taxes receivable, net	\$ 351,775
Prepaid property taxes	58,515
Other deferred revenue	377,200
Total deferred revenue	<u>\$ 787,490</u>

### G. Long-Term Debt

A summary of changes in long-term debt follows:

	June 30, 1997	Additions	Retirements	June 30, 1998
General long-term debt:				
General obligation bonds	\$ 725,000	\$ 3,000,000	\$ 100,000	\$ 3,625,000
Capital leases	1,945,835	-	316,252	1,629,583
Compensated absences	708,887	10,150	-	719,037
	<u>\$ 3,379,722</u>	<u>\$ 3,010,150</u>	<u>\$ 416,252</u>	<u>\$ 5,973,620</u>
Enterprise fund:				
General obligation bonds	\$ 18,330,000	\$ 3,950,000	\$ 1,045,000	\$ 21,235,000
Revenue bonds	-	2,040,000	-	2,040,000
State loans	816,205	4,633,915	272,506	5,177,614
Capital leases	-	3,604,186	197,799	3,406,387
	<u>\$ 19,146,205</u>	<u>\$ 14,228,101</u>	<u>\$ 1,515,305</u>	<u>\$ 31,859,001</u>
Total	<u>\$ 22,525,927</u>	<u>\$ 17,238,251</u>	<u>\$ 1,931,557</u>	<u>\$ 37,832,621</u>

## NOTES TO FINANCIAL STATEMENTS

The City has general obligation bonds in the General Fund Long-Term Debt Account Group for public improvements dated January 1, 1992. The bonds were issued for improvements to the City's parks and recreation areas and for sidewalk and parking facilities. These bonds have an average interest rate of 6.10% and mature serially to 2002.

In November 1993, the City issued \$373,000 general obligation bonds. The bonds were designated for improvements to the City's downtown parking facilities and for construction of recreation facilities. These bonds were issued at an average interest rate of 4.846% and mature serially to 2004.

The City issued \$355,000 general obligation bonds in November 1995 for public parks and recreation facilities improvements. The bonds were issued at an average interest rate of 5.2756% and mature serially to 2006.

In January 1998, the City issued \$3,000,000 general obligation bonds. The bonds were designated for parks and recreation facilities. The bonds were issued at an average interest rate of 4.7718% and mature serially to 2017.

The City has lease agreements to finance the acquisition of various equipment and facilities. These agreements qualified as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, were recorded at the present value of the future minimum lease payments as of the date of their inception.

These lease agreements are outlined as follows:

Lease of telecommunications equipment from BB&T Leasing Corporation, dated March 11, 1996, payable in eight semi-annual installments of \$54,438 at an effective interest rate of 3.93%.

Lease for capital improvements and acquisition of facilities from Wachovia Bank and Trust, dated December 20, 1996, payable in 14 semi-annual installments of \$149,223 at an effective interest rate of 4.91%.

The equipment and facilities acquired by these capital leases has been recorded in the General Fixed Assets Account Group at values totaling \$1,894,431.

Future maturities of general long-term debt, excluding accrued vacation pay, are as follows:

Year Ending June 30,	General Obligation Bonds		Capital Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$ 200,000	\$ 176,140	\$ 333,126	\$ 74,196	\$ 533,126	\$ 250,336
2000	200,000	166,158	347,359	59,963	547,359	226,121
2001	200,000	156,125	254,936	43,509	454,936	199,634
2002	200,000	146,092	267,607	30,838	467,607	176,930
2003	180,000	136,020	280,908	17,538	460,908	153,558
Thereafter	2,645,000	923,210	145,647	3,576	2,790,647	926,786
	<u>\$ 3,625,000</u>	<u>\$ 1,703,745</u>	<u>\$ 1,629,583</u>	<u>\$ 229,620</u>	<u>\$ 5,254,583</u>	<u>\$ 1,933,365</u>

The general obligation bonds and capitalized leases are being retired by the resources of the General Fund. The general obligation bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City. The capitalized leases are collateralized by the equipment and facilities on which the lease is given.

Enterprise fund long-term debt (excluding capital leases) includes the following general and revenue bond issues and State Clean Water Bonds of the Water and Sewer Fund:

## NOTES TO FINANCIAL STATEMENTS

	Balance June 30, 1998
Sanitary Sewer Series 1989, average rate of 6.5245% issued July 1989, maturing serially to 2008	\$ 975,000
Sanitary Sewer Series 1992, average rate of 6.10%, issued January 1992, maturing serially to 2011	800,000
Refunding Bonds, Series 1993, average rate of 4.186%, issued November 1993, maturing serially to 2008	2,960,000
Water and Sewer Bonds, Series 1995, average rate of 5.2756%, issued November 1995, maturing serially to 2015	12,550,000
Water and Sewer Revenue Bonds, Series 1998A, average rate of 4.87%, issued January 1998, maturing serially to 2018	2,040,000
Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	700,000
Water Bonds, Series 1998, average rate of 4.4%, issued June 1998, maturing serially to 2017	3,250,000
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	4,750,000
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	427,614
	<u>\$ 28,452,614</u>

The general obligation bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems. The general obligation bonds are being retired by the resources of the Water and Sewer Fund. The general obligation bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City.

The City also received \$4,633,915 from the State of North Carolina Clean Water Bond Loan Program during the fiscal year ended June 30, 1998. These loans were used to finance the construction and improvements of the water and sewer systems.

The City also issues where bonds where the City pledges income derived from the Enterprise Fund acquiring or constructing assets with the proceeds to pay debt service. In January 1998 the City issued \$2,040,000 revenues bonds to finance improvements to the City's sewer system. Revenues outstanding as of June 30, 1998 consisted only of the January issue. The Revenue Bond General Trust Indenture requires that the City must certain debt covenants relating to reporting requirements, annual budgets, and minimum utility funds revenues. As of and for the year ended June 30, 1998, all covenants have been met. Net revenues available for revenue bond debt service can not be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness. A calculation of the City's revenue bond coverage for the year ended June 30, 1998 is as follows:

Gross	Operating	Net Revenues Available for Revenue Bond	Debt Service Requirements (3)			
Revenues (1)	Expenditures(2)	Debt Service	Principal	Interest	Total	Coverage
\$ 12,163,733	\$ 7,888,104	\$ 4,275,629	\$ -	\$ 42,223	\$ 42,223	10,126.30%

(1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

(2) Total operating expenses exclusive of depreciation.

(3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds only.

During the fiscal year ended June 30, 1998, the City entered into agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their

## NOTES TO FINANCIAL STATEMENTS

inception. Interest rates on these agreements range from 3.385% to 4.5%. The City has recorded water and sewer assets related to these leases at their fair market value of \$3,802,476. The future minimum lease payments total \$4,484,012, including \$1,077,625 of interest. The leases expire in 2006 and 2016 at which time the City will take ownership of the related assets.

Future maturities of enterprise fund long-term debt are as follows:

Year Ending June 30,	Bonds		Capital Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$ 1,642,506	\$ 1,446,490	\$ 198,799	\$ 117,001	\$ 1,841,305	\$ 1,563,491
2000	1,627,506	1,364,934	198,799	110,071	1,826,305	1,475,005
2001	1,627,506	1,283,412	199,799	103,141	1,827,305	1,386,553
2002	1,622,506	1,201,803	199,799	97,021	1,822,305	1,298,824
2003	1,622,506	1,120,281	200,799	89,191	1,823,305	1,209,472
2004	1,622,506	1,038,727	200,799	82,171	1,823,305	1,120,898
2005	1,632,506	957,139	200,799	75,151	1,833,305	1,032,290
2006	1,637,506	874,992	198,799	68,131	1,836,305	943,123
2007	1,632,506	792,519	180,799	61,201	1,813,305	853,720
2008	1,582,506	710,134	180,799	55,081	1,763,305	765,215
2009	1,547,506	627,325	180,799	48,960	1,728,305	676,285
2010	1,552,506	546,841	180,799	42,840	1,733,305	589,681
2011	1,557,506	466,113	180,799	36,720	1,738,305	502,833
2012	1,562,506	385,091	180,799	30,600	1,743,305	415,691
2013	1,567,506	304,226	180,799	24,480	1,748,305	328,706
2014	1,572,506	222,943	180,799	18,360	1,753,305	241,303
2015	1,582,506	141,294	180,799	12,240	1,763,305	153,534
2016	587,506	59,280	180,804	5,265	768,310	64,545
2017	517,506	30,022	-	-	517,506	30,022
2018	155,000	3,774	-	-	155,000	3,774
	<u>\$ 28,452,614</u>	<u>\$ 13,577,340</u>	<u>\$ 3,406,387</u>	<u>\$ 1,077,625</u>	<u>\$ 31,859,001</u>	<u>\$ 14,654,965</u>

The City had a legal debt margin of \$80,675,259 at June 30, 1998.

### H. Pension Cost

#### 1. Local Government Employees' Retirement System

*Plan Description.* The City of Salisbury contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government Employees Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.33%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 1998, 1997, and 1996 were \$579,156, \$554,696,

## NOTES TO FINANCIAL STATEMENTS

and \$473,327, respectively. The contributions made by the City equaled the required contributions for each year.

### 2. Law Enforcement Officers Special Separation Allowance

#### A. Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the North Carolina General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the General Assembly. The Separation Allowance is reported in the City's Comprehensive Annual Financial Report as a pension trust fund.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 1997, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>79</u>
Total	<u>81</u>

#### B. Summary of Significant Accounting Policies

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* As noted in Note 1F. previously, cash and investments are held in a single central depository with each fund owning a pro-rata share. Therefore, cash and investments are essentially demand deposits and are considered to be cash and cash equivalents. Investments are reported at cost which approximates market.

#### C. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$48,441, or 1.97% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the General Fund.

The annual required contribution for the current year was determined as part of the December 31, 1997 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.4% to 8.5% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being

## NOTES TO FINANCIAL STATEMENTS

amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 1997 was 22 years.

### D. Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 46,035
Interest on net pension obligation	(1,591)
Adjustment to annual required contribution	<u>1,932</u>
Annual pension cost	\$ 46,376
Contributions made	<u>48,441</u>
Increase in net pension asset	\$ 2,065
Net pension asset beginning of year	<u>21,211</u>
Net pension asset end of year	<u><u>\$ 23,276</u></u>

### Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/98	46,376	104%	23,276
6/30/97	43,984	115%	21,211

### 3. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description:* The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*Funding Policy:* Article 12E of G.S. Chapter 143 requires that the City contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 1998 were \$123,152 which consisted of \$123,152 from the City and \$0 from the law enforcement officers.

### 4. Firemen's and Rescue Squad Workers' Pension Fund

*Plan Description:* The State of North Carolina contributes, on behalf of the City of Salisbury, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the fund. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding Policy:* Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund.

## NOTES TO FINANCIAL STATEMENTS

Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

For the fiscal year ended June 30, 1998, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$30,436 for the 66 employed firemen who perform firefighting duties for the City's fire department.

### I. Other Postemployment Benefits

In addition to providing pension benefits, the City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefits may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 1998, the City made contributions to the State for death benefits of \$17,662. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.15% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

### J. Contributed Capital

Grants, entitlement, and shared revenues restricted for the acquisition of or construction of capital assets are recorded as contributed capital. The following is a summary of changes in contributed capital for the year ended June 30, 1998:

	Water and Sewer Fund	Mass Transit Fund	Total Enterprise Fund
Additions:			
Local developers	\$ 2,901,450	\$ -	\$ 2,901,450
Other municipalities	4,827,575	-	4,827,575
Federal and state grants	-	9,264	9,264
Total additions	\$ 7,729,025	\$ 9,264	\$ 7,738,289
Contributed capital, beginning	22,054,841	1,463,158	23,517,999
Contributed capital, ending	<u>\$ 29,783,866</u>	<u>\$ 1,472,422</u>	<u>\$ 31,256,288</u>

On July 1, 1997, the towns of Granite Quarry and Rockwell contributed the operations and assets of their water and sewer utilities to the City. The fair value of the assets contributed in excess of the liabilities assumed totaled \$4,827,575 and was recorded as contributed capital by the City.

### K. Water and Sewer Fund - Restricted Assets

The City has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the statements for the Water and Sewer Fund. These amounts are not available to meet obligations arising from the operating activities of the fund. The amounts listed in the table below are restricted by capital project ordinance, by covenant related to the general obligation bond issue, and/or by the external source of the originating transaction.

## NOTES TO FINANCIAL STATEMENTS

A summary of these assets and related liabilities restricted for specific purposes at June 30, 1998, follows:

Cash and investments	\$ 11,997,560
Accounts receivable	198,320
Interest receivable	24,128
Accounts payable	(1,492,926)
Customer deposits	(163,553)

### L. Major Customer

One unrelated customer was responsible for generating approximately 14.7% of the City's Water and Sewer Fund revenues for the year ended June 30, 1998. The customer accounted for approximately 9.3% of the accounts receivable balance at June 30, 1998.

### Note 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides general liability coverage to \$2,000,000 as well as \$2,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on personal property, including boiler and machinery, in an amount of \$66,401,230. Other replacement cost property insurance includes coverage for electronic equipment in the amount of \$1,419,678, automobile physical damage insurance for \$6,829,308, and impounded vehicles for \$100,000. The City also provides coverage for employee dishonesty in the amount of \$100,000 and fidelity insurance of the Finance Director's office for \$100,000. The pool is reinsured through commercial companies for single occurrence claims against property, general liability, and auto liability in excess of \$300,000.

The City also maintains commercial liability insurance of \$1,000,000 for its public officials and \$1,000,000 for law enforcement professional liability. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In addition, the City currently self-insures an employee health benefits program through a third party administrator. However, the City's exposure is limited to \$40,000 per individual and to 120% of estimated annual aggregate claims. The City also carries an excess workers' compensation policy through a commercial insurer in the amount of \$1,000,000. The City retains a \$300,000 deductible for this coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims is reported in the current liabilities of the internal service funds. Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended June 30, 1997	Year ended June 30, 1998
Unpaid claims, beginning of fiscal year	\$ 242,584	\$ 239,543
Incurred claims (including IBNRs)	1,541,129	1,716,954
Claim payments	1,544,170	1,694,883
Unpaid claims, end of fiscal year	<u>\$ 239,543</u>	<u>\$ 261,614</u>

An independent review of the City's various risk management activities is conducted annually, and coverage is adjusted accordingly as needed. There have been no reductions in insurance coverage from the prior year.

Downtown Salisbury, Inc., is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The unit has commercial insurance covering property, general liability, and employee health coverage. Claims have not exceeded coverage in any of



## NOTES TO FINANCIAL STATEMENTS

the past two years. Salisbury New Horizons Housing Corporation, Inc., is staffed by City personnel and its operations and assets are covered by the City's general liability policy.

### Note 5. Enterprise Funds - Segment Information

The City maintains two enterprise funds that provide water, sewer, and mass transit services. Segment information for the year ended June 30, 1998 is as follows:

	Water and Sewer Fund	Mass Transit Fund	Totals
Operating revenues	\$ 11,429,925	\$ 73,038	\$ 11,502,963
Depreciation expense	1,785,568	54,119	1,839,687
Operating income (loss)	1,756,253	(403,749)	1,352,504
Operating grants	-	182,527	182,527
Operating transfers in	-	130,021	130,021
Net income (loss)	1,536,384	(74,691)	1,461,693
Current capital contributions	7,729,025	9,264	7,738,289
Total assets	89,758,665	326,415	90,085,080
Fixed assets, net	70,066,094	101,396	70,167,490
Fixed asset additions	22,147,962	12,355	22,160,317
Fixed asset deletions	78,157	-	78,157
Net working capital	14,832,708	185,886	15,018,594
Long-term debt	31,859,001	-	31,859,001
Retained earnings (deficit)	25,097,240	(1,185,140)	23,912,100
Contributed capital	29,783,866	1,472,422	31,256,288
Total equity	54,881,106	287,282	55,168,388

### Note 6. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 1998, the City reported revenues and expenditures for the payments of \$38,494 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 1998. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

### Note 7. Contingencies, Commitments and Subsequent Events

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the City does not believe the settlement of these matters will have a material adverse effect on the financial condition of the City. The City is currently a defendant in one workers' compensation lawsuit. The City has prevailed at each hearing until May 1997 when an unfavorable ruling in an amount of \$143,000 was issued by the full North Carolina Industrial Commission. The City Council authorized staff to appeal to the North Carolina Court of Appeals. In June 1998 the North Carolina Court of Appeals reversed the ruling of the Industrial Commission and ruled in favor of the City. In September 1998, the plaintiffs appealed this decision to the North

## **NOTES TO FINANCIAL STATEMENTS**

Carolina Supreme Court. If the City were to ultimately receive an unfavorable decision, it is the City's opinion that the decision would not have a material effect on the financial condition of the City of Salisbury.

The City has been approved for \$9,200,000 in State Clean Water Bonds. These bonds will be used to finance several construction projects for facilities utilized by the Water and Sewer Fund. The City anticipates spending a portion of these funds during the fiscal year ending June 30, 1999.

At June 30, 1998, the City has \$667,772 in uncompleted construction contracts in the General Fund and are included in the reservation of fund balance for encumbrances. In addition, the City has \$9,364,668 in uncompleted construction contracts in the Water and Sewer Fund.

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# Required Supplemental Financial Data

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## CITY OF SALISBURY, NORTH CAROLINA

## LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF FUNDING PROGRESS

Last Six Fiscal Years

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets		(2) Actuarial Accrued Liability (AAL) Projected Unit Credit	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) / (2)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
1997	\$	179,257	\$ 436,656	\$ 257,399	41.05%	\$ 2,391,215	10.76%
1996		141,175	380,118	238,943	37.14%	2,169,850	11.01%
1995		110,262	352,314	242,052	31.30%	1,998,555	12.11%
1994		90,602	307,750	217,148	29.44%	1,944,845	11.17%
1993		69,182	297,781	228,599	23.23%	1,811,784	12.62%
1992		53,799	278,763	224,964	19.30%	1,598,537	14.07%

## CITY OF SALISBURY, NORTH CAROLINA

## LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Six Fiscal Years

<b>Fiscal Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
1998	\$ 46,376	104%
1997	43,984	115
1996	39,685	100
1995	46,916	100
1994	42,536	100
1993	38,105	100
1992	31,301	100

**Notes to the Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/97
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	22 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return	7.25%
Projected salary increases	4.4% - 8.5%
Includes inflation at	3.75%
Cost of living adjustments	N/A